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IN THE

Supreme Court of the United States

OCTOBER TERM, 1976.

No. 76- 591

MORAINE PRODUCTS,

Cross-Petitioner,

vs.

ICI AMERICA, INC.,

Cross-Respondent.

CROSS-PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

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Sept. 16, 1976.

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Cross-Petitioner, Moraine Products, respectfully prays that a writ of certiorari be granted to review the Judgment and Opinion of the U. S. Court of Appeals for the Seventh Circuit, entered on June 18, 1976 in Appeal No. 75-1488.

OPINIONS BELOW.

The Opinion of the Court of Appeals is reported at ..... F. 2d ..... (7th Cir. 1976) and is reprinted in the Appendix hereto at p. A1, *infra*. The U. S. District Court for the Northern District of Illinois, Eastern Division, did not render a formal Opinion. However, its comments when it directed a verdict against Moraine are included in the Appendix hereto at p. A32, *infra*.

JURISDICTION.

The Judgment of the U. S. Court of Appeals for the Seventh Circuit was entered on June 18, 1976.

The jurisdiction of this Court is invoked under 28 U. S. C. §§ 1254(1) and 2101(c).

QUESTIONS PRESENTED.

1. Is it an illegal group boycott, and thus a per se violation of § 1 of the Sherman Act, for two competitors, respectively the assignee and licensee of a patent that covers the only composition found by the Food and Drug Administration to be effective in the treatment of flatulence (gas) in humans, to agree that no other competitors will be licensed under that patent without their mutual consent?

2. Can commercial misconduct which is a per se antitrust violation in one line of commerce not be a per se violation simply because it occurs in another line of commerce?

STATUTORY PROVISIONS INVOLVED.

15 U. S. C. § 1: "Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal. . . ."

STATEMENT OF THE CASE.

This case involves the monopolization by two competitors of the only composition found by the FDA to be effective in the treatment of flatulence (gas) in humans. (App. A4). One competitor acquired a patent covering that composition, and the other competitor was its licensee under the patent. Their license agreement provided that no other licenses would be

granted without their joint consent (App. A6). The avowed purpose (and effect) of the arrangement was to foreclose competition in a drug having wide appeal to the general public and ultimately accounting for tens of millions of dollars in annual sales (App. A25).

Cross-petitioner, Moraine Products (Moraine) is the assignee of the Rider patent* directed to a method of treating gas in humans by ingesting a product known as simethicone and consisting of methylpolysiloxane (MPS) and finely divided silica. In the late 1950's, Dr. J. Alfred Rider and Moraine entered into an agreement with the Stuart Pharmaceutical Co. (Stuart) under which Stuart would market the product and pay Rider and Moraine a 5% royalty, whether or not a patent ever issued on Dr. Rider's invention** (App. A4).

Also during the 1950's, W. H. Feinstone filed a patent application on the treatment of gas using MPS. Ultimately, Feinstone became employed by Plough, Inc. (Plough), a defendant below, and assigned to Plough the rights in his patent.***

Thereafter, on a visit to Stuart in 1960, on behalf of Plough, Feinstone learned of Stuart's plans to introduce the product developed by Dr. Rider, and Feinstone informed Stuart personnel of his contention that the product would infringe the soon-to-issue Feinstone patent (App. A4).

After months of correspondence and meetings in which Plough and Stuart repeatedly discussed excluding others from marketing a simethicone-containing product, Stuart unilaterally rescinded its agreement with Dr. Rider and Moraine on January 18, 1961. One day later, Stuart signed an agreement with Plough whereby Stuart obtained a license under the Feinstone patent "exclusive except as against Plough and Block Drug

* U. S. Patent No. 3,422,189.

** Stuart was acquired by Atlas Chemical Industries, Inc. (Atlas) which, in turn, became ICI America, Inc. (ICI).

*** The Feinstone patent issued on August 30, 1960 as U. S. Patent No. 2,951,011 and was reissued on July 24, 1962 as Re. 25,205.

Co."* Neither Plough nor Stuart had the right unilaterally to license others. As stated by the Seventh Circuit, the effect of the agreement is that further licensing under the Feinstone patent can only be accomplished by joint agreement between the competitors, Stuart and Plough (App. A6).

Almost immediately after the signing of the Stuart-Plough agreement in 1961, Atlas announced its acquisition of Stuart. Thereafter, over 40 drug companies, including the leading American manufacturers of digestive aids, requested licenses under the Feinstone patent from the defendants. In many instances, the requests were turned down peremptorily. On some occasions, Plough considered granting a license, but after consultation with Atlas, the granting of a license was always vetoed. On a number of other occasions, Atlas discovered competitive but unlicensed simethicone-containing products on the market and demanded that Plough take whatever steps were necessary to eliminate this competition. To the date of the filing of this suit, not a single license was ever granted (App. A24-5).

In 1961, Moraine sued Atlas because of Stuart's rescission of its earlier agreement with Moraine. In June 1962, that suit was settled upon terms which granted Atlas an option to obtain licenses for itself or others under any patent that might issue on Rider's invention (App. A6).

The Rider patent issued in January, 1969 after a long, complex patent interference proceeding in which Rider prevailed. Atlas thereupon exercised its option and commenced paying royalties to Moraine. Under the agreement with Moraine, and unlike its agreement with Plough, Atlas had the sole right to

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* Stuart (Atlas) combines simethicone with an antacid in its Mylanta product. Virtually the same formulation is used in Plough's DiGel. Block appeared on the market with a product including simethicone and digestive enzymes while Plough and Stuart were ironing out the terms of their agreement. When Block refused to remove the product and threatened litigation, Stuart and Plough agreed to provide it with a limited license for such enzyme preparations. No other licenses were ever granted prior to this suit.

obtain licenses for others under the Rider patent. Because of the overlapping nature of the Rider and Feinstone patents, any drug company wishing to market a product employing simethicone for treating gas in humans required a license under both patents.* Because of Atlas' and Plough's diligence and success in excluding competition from the market, the only simethicone-containing products available for licensing under the Rider patent were those of Atlas, Plough, and Block (App. A24-5).

In 1970, Atlas filed a declaratory judgment suit against Moraine which resulted in the Rider patent being declared invalid based on a prior public use unknown to Rider or Moraine but long before known by Atlas which withheld this knowledge from Rider and Moraine. *Atlas Chemical Industries, Inc.* v. *Moraine Products, Inc.*, 350 F. Supp. 353 (E. D. Mich. 1972), *aff'd. in part, rev'd. in part*, 509 F. 2d 1 (6th Cir. 1974).**

It is Moraine's contention that, but for the illegal boycott of potential licensees by Plough and Atlas, Moraine would have obtained increased royalty income during the period when the Rider patent was presumed valid. Moraine produced evidence of that fact at trial.***

Moraine urged below that the Atlas-Plough agreement constituted a *per se* violation of § 1 of the Sherman Act (15 U. S. C. § 1) and, in the alternative, that under the rule-of-reason approach, the contract between and conduct of Atlas and Plough was an unreasonable restraint of trade.

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* The invention embodied in the Rider patent was an improvement over the invention embodied in the Feinstone patent, thus necessitating a license under both. *Temco Electric Motor Co.* v. *Apco. Mfg. Co.*, 275 U. S. 319, 328 (1928).

** The district court held that Atlas' conduct in withholding information of the prior public use from Moraine was a "disdain of the public interest". 350 F. Supp. at 358-59.

*** The trial court separated the issues of liability and damage, the former issue going to trial. When it directed its verdict on the liability issue, the trial court found that Moraine had made a *prima facie* case on the fact of damage.

At the close of Moraine's case, the district court directed a verdict against Moraine on both theories of recovery. Although no formal opinion was prepared, the district court stated that it was impressed by the law of the Seventh Circuit which

> "to me indicated if there is a conflict between patent law and antitrust law, that the patent law will prevail unless the antitrust laws specifically or by necessary implication amend the patent laws." (App. A33.)

Moraine's suit against Plough was settled shortly after the directed verdict. Thereafter, Atlas was the only defendant remaining in the case.

On appeal, Moraine again argued the *per se* illegality of the Atlas-Plough conduct and that, even if there was no *per se* violation, there was sufficient evidence to take the case to the jury under the rule-of-reason theory. Atlas argued a number of other reasons why the district court decision should be upheld in addition to those relied upon by the district court.

The Seventh Circuit rejected Atlas' arguments and held that, although the Atlas-Plough arrangement was not *per se* prohibited by the Sherman Act, Moraine had still established a *prima facie* case under the rule-of-reason theory, requiring submission of that issue to the jury (App. A21-26). The Seventh Circuit therefore remanded the case for a new trial.

This cross-petition presents questions concerning *per se* illegality, only.

REASONS FOR GRANTING CROSS-PETITION FOR A WRIT OF CERTIORARI.

The decision of the Seventh Circuit with regard to *per se* illegality under § 1 of the Sherman Act involves both (a) questions that were decided in conflict with applicable decisions of this Court, and (b) important questions of federal law which have not been, but should be settled by this Court.

THE DECISION OF THE SEVENTH CIRCUIT CONFLICTS WITH APPLICABLE DECISIONS OF THIS COURT.

In refusing to condemn the group boycott effectuated by Atlas and Plough, the Seventh Circuit's decision is in direct conflict with decisions of this Court. Such decisions hold that, where, as here, several competitors refuse to deal with another, admittedly for the purpose of eliminating competition, the conduct is *per se* illegal. *Fashion Originators' Guild of America, Inc.* v. *FTC,* 312 U. S. 457 (1941). "[W]here businessmen concert their actions in order to deprive others of access to merchandise which the latter wish to sell to the public, we need not inquire into the economic motivation underlying their conduct." *United States* v. *General Motors Corp.,* 384 U. S. 127, 146 (1966). "Group boycotts, or concerted refusals by traders to deal with other traders, have long been held to be in the forbidden category." *Klor's, Inc.* v. *Broadway-Hale Stores, Inc.,* 359 U. S. 207, 212 (1959).

The 7th Circuit itself described the license here as constituting a group boycott when it said:

> "Here, the applicant [for a license] must secure the consent of the two parties, the licensor and its immediate licensee. This arrangement, which requires joint action of two parties before an applicant can secure a license, permits undesirable applicants to be *boycotted through concerted action.*" (App. A12.)*

The Seventh Circuit apparently distinguished the boycotts previously condemned by this Court from the conduct here because of the presence of a patent license. However, this Court has on repeated occasions recognized that, although copyright and patent holders have the right to grant licenses or assignments, they cannot use those rights to suppress competition through joint action. *Interstate Circuit* v. *United States,* 306 U. S. 208, 227-30 (1939); *United States* v. *Masonite*

* Emphasis is always added.

Corp., 316 U. S. 265, 277 (1942); *United States* v. *The Singer Mfg. Co.*, 374 U. S. 174, 193-95 (1963).

The only cases that have previously dealt with the legality of patent licenses requiring joint consent of competitors before additional licenses could be granted have condemned such provisions. *United States* v. *Besser Mfg. Co.*, 96 F. Supp. 304, 311 (E. D. Mich. 1951), *aff'd.*, 343 U. S. 444 (1952); *United States* v. *Krasnov*, 143 F. Supp. 184, 201-03 (E. D. Pa. 1956), *aff'd. per curiam*, 355 U. S. 5 (1957); *Mason City Tent & Awning Co.* v. *Clapper*, 144 F. Supp. 754, 767 (W. D. Mo. 1956); *Clapper* v. *Original Tractor Cab Co.*, 165 F. Supp. 565, 576 (S. D. Ind. 1958); *United States* v. *Associated Patents, Inc.*, 134 F. Supp. 74, 79-80, 82-3 (E. D. Mich. 1955), *aff'd. per curiam*, 350 U. S. 960 (1956); *McCullough Tool Co.* v. *Well Surveys, Inc.*, 343 F. 2d 381, 407 (10th Cir. 1965), *cert. denied*, 383 U. S. 933 (1966).

The Seventh Circuit attempted to distinguish this uninterrupted line of authority by saying:

> "*Krasnov* involved pooling of patents, price fixing and the institution of punitive infringement suits for the purpose of harrassment rather than with the intention that they be adjudicated on the merits. In *Besser*, the conspiracy involved pooling of patents, an agreement to pool future improvement patents, interlocking directorates, the use of improper influence on suppliers or competitors to curtail their output, and recklessly make threats of suit. Each of the leading cases cited by Moraine in support of its theory of per se illegality involved a broad spectrum of anticompetitive conduct on the part of the defendants." (App. A9.)

However, although the defendants in the above-cited cases may have been guilty of other unlawful practices, the courts there made it abundantly clear that the license provisions requiring joint consent of competitors before licenses could be granted were in and of themselves unlawful.

For example, in *Besser:*

> "The contract even gives Stearns and Besser the power to restrict competition—present and future—by requiring their joint consent before licensing others. *It is this combination requiring collective action that primarily invalidates the agreement.*" 96 F. Supp. at 311.

In *Krasnov:*

> "the Court notes here a *situation where no one, the patentee, the assignee, or the licensee, can create any rights under the patent in any other person without the consent of the other two.* The owner of the patent and the two dominant manufacturers in the trade have so bound themselves. Although these facts are not identical with those in United States v. Besser Mfg. Co., [citation omitted] I think *the evil which the court there struck down exists here, namely, (1) the veto power over licensing rights granted to a licensee and (2) the contractual arrangement which created the power to restrict competition by requiring joint consent before others could be licensed.*" 143 F. Supp. at 201-03.

In *Mason City Tent & Awning Co.:*

> "Hence it is held that an agreement by a patentee which gives a non-exclusive licensee a veto power in the selection of other licensees, is invalid according to Sherman Act standards. [Citations omitted.]
>
> It cannot be successfully contended by defendants that the terms of the license agreement, supra, are not, per se, violative of Section 1 of the Sherman Act in the aspects hereinabove considered, and we so adjudge it." 144 F. Supp. at 767.

In *Clapper:*

> "An agreement by a patentee which gives a non-exclusive licensee a veto power in the selection of other licensees is invalid according to Sherman Act standards, Sections 1 and 2." 165 F. Supp. at 576.

The Seventh Circuit also referred to "Atlas' assertion of sound commercial grounds for its desiring the challenged patent

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The Seventh Circuit also referred to "Atlas' assertion of sound commercial grounds for its desiring the challenged patent

license" as a basis for rejecting the *per se* approach (App. A19).* However, following the Seventh Circuit rationale, such "grounds" can be asserted to "justify" even the most offensive previously condemned predatory conduct. For example: If Atlas and Plough had decided that their investment in developing the simethicone-containing products could only be protected by fixing the price of Mylanta and DiGel, they would have received little sympathy from the courts. Their "economic motivation" for engaging in a group boycott is equally irrelevant. *United States* v. *General Motors Corp.*, 384 U. S. 127, 146 (1966). Maximizing profits at the consumer's expense as a result of concerted activity between competitors is hardly a sound basis for retreating from the carefully evolved doctrine of *per se* illegality.

THE SEVENTH CIRCUIT CONTENDS THAT THE ISSUE OF PER SE ILLEGALITY INVOLVED HERE IS AN UNSETTLED ONE.

It is important that this Court consider the question of *per se* illegality presented here because the Seventh Circuit indicated that the question was one unsettled by this Court.**

As expressly noted by the Court of Appeals, there is a significant body of authority, comprising decisions and the pronouncements of commentators and Department of Justice officials, recognizing the *per se* illegality of the licensing restriction embodied in the Atlas-Plough agreement. However, what the Court of Appeals thought to be a lack of unanimity made it

* The "commercial grounds" are apparently derived from Atlas' statement in the Court of Appeals: "Protected by its license from Plough, Stuart, a small manufacturer was able to make the investment required to enter the intensely competitive antacid market. . . ." Brief of Defendant-Appellee Atlas (ICI America, Inc.), p. 19.

** As noted above, we contend that the decision of the Seventh Circuit is contrary to applicable decisions of this Court. The Seventh Circuit, however, contends that the issue of *per se* illegality, here, is an unsettled one. If this is true, it is another reason why this question should be considered by this Court.

reluctant to employ the *per se* label here. In doing so, the Seventh Circuit decision itself specifies the reasons for granting this cross-petition. For example:

> "Although officials of the Antitrust Division have indicated the view stated above, [for *per se* illegality] recent filings of civil actions challenging the validity of licensing practices apparently reflect diffuse approaches, so that *commentators find difficulty in uncovering 'any consistent theories that might guide patentees, licensees and their counsel in structuring licensing programs.' Andelman & Juenger*, supra at 300-01.
>
> "In sum, patent and antitrust champions have debated for a number of years the reach of such cases as *Krasnov* and *Besser*." (App. A7-8.)

and;

> "Resort to *the writings of both patent and antitrust specialists* provides a framework for judicial analysis but *does not effectively resolve the basic question here presented*." (App. A9.)

also;

> "*The absence of any exacting analysis* of the precise nature of the views of the [antitrust] Division, which this court although not bound thereby would respectfully consider, is but one of the factors which makes this court hesitate in accepting Moraine's reading of the outer reaches of the Supreme Court's per curiam opinion [In *Krasnov*]." (App. A9.)

* * * * *

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* After noting the previously articulated position of the Department of Justice strongly asserting the *per se* illegality of the type of license provision involved here, the Court below totally rejected that position by placing undue emphasis on a recent letter expressing the Department's intention not to oppose what the Court below mistakenly deemed to be a similar licensing plan proposed by the Salk Institute for Biological Sciences (App. A9-10). In any event such a letter (sometimes referred to as a "business review letter") states only the antitrust division's present enforcement intentions with respect to proposed business conduct. Antitrust Law Developments, Antitrust Section of American Bar Association, 1975, p. 232; 28 C. F. R. § 50.6, as amended by 38 Fed. Reg. 34804 (1973). That intention does not make lawful what is otherwise unlawful nor does it provide antitrust immunity.

> "The objectionable nature of the limited exclusive license rests basically upon an analysis of the anticompetitive possibilities that such a licensing scheme presents. The authors whose analysis we have paraphrased go on to observe, citing, inter alia, *Krasnov* and *Besser, that the issue remains unsettled.*" (App. A12.)

There is another reason advanced by the court below in support of its refusal to apply the *per se* doctrine which, in its view, apparently involves an important question not settled by this Court. This reason, unsupported by any record, involves the alleged special status of the drug industry. In this connection, the court below states that "the patent structure" of the drug industry is peculiar in several respects and apparently accepts the proposition that competition might be "restimulated by adopting a limited number of rules that would classify patent licensing practices in the drug industry, at least for antitrust purposes, in accordance with their propensity to suppress patent attack by licensees". (App. A17.)

This Court, of course, has never indicated that the *per se* doctrine should not be applied, to the drug industry, or to any other industry. We believe that if there is to be such a startling departure from prior decisions of this Court (cited above at pp. 7-8), it should be accomplished legislatively* but, if not, the matter should be expressly settled here.

CONCLUSION.

The decision of the Seventh Circuit emasculates the *per se* doctrine for it seeks improperly to impose incredibly complicated elements of proof to establish a group boycott as a violation of the Sherman Act (App. A17-19) rather than to facilitate the condemnation of this obviously pernicious and predatory conduct. As such, the decision below is directly contrary to the decision of this Court in *Northern P. R. Co.* v. *United States,*

* See concurring opinion of Justice Blackmun in *United States* v. *Topco Associates, Inc.*, 405 U. S. 596, 613 (1972).

356 U. S. 1 (1958) where, in classifying a group boycott as *per se* illegal, this Court stated, 356 U. S. at 5:

> "This principle of per se unreasonableness not only makes the type of restraints which are proscribed by the Sherman Act more certain to the benefit of everyone concerned, but it also avoids the necessity for an incredibly complicated and prolonged economic investigation into the entire history of the industry involved, as well as related industries, in an effort to determine at large whether a particular restraint has been unreasonable—an inquiry so often wholly fruitless when undertaken. Among the practices which the courts have heretofore deemed to be unlawful in and of themselves are . . . group boycotts. . . ."

Respectfully submitted,

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Sept. 16, 1976.

APPENDIX.

IN THE UNITED STATES COURT OF APPEALS
For the Seventh Circuit

No. 75-1488

MORAINE PRODUCTS,

Plaintiff-Appellant,

vs.

ICI AMERICA, INC.,

Defendant-Appellee.

Appeal from the United States District Court
For the Northern District of Illinois, Eastern Division
No. 70 C 2350
THOMAS R. MCMILLEN, *Judge.*

ARGUED DECEMBER 2, 1975—DECIDED JUNE 18, 1976

Before PELL and BAUER, *Circuit Judges,* and WHELAN, *District Judge.**

PELL, *Circuit Judge.* This is an appeal by plaintiff Moraine Products (hereinafter Moraine) from a judgment entered on a directed verdict in favor of defendant ICI America, Inc. (hereinafter Atlas) on Counts I, II, and III of Moraine's complaint after presentation to the jury of the plaintiff's case in chief. The three counts of Moraine's second amended complaint that

* District Judge Francis C. Whelan of the United States Court for the Central District of California is sitting by designation.

were tried consisted of two antitrust counts and a count for alleged tortious interference with business relationships. Moraine's claim of injury under Section 4 of the Clayton Act, 15 U. S. C. § 15, was based on its ownership of Patent No. 3,422,189 (the Rider patent), and it charged conduct violative of Section 1 of the Sherman Act, 15 U. S. C. § 1, relating to the licensing of the Feinstone patent, which was originally issued as Patent No. 2,951,011 on August 30, 1960, reissued on July 24, 1962 as Reissue No. 25,205, and which was owned at all pertinent times by Plough, Inc., a codefendant at the trial. Moraine's primary theory of recovery was that a license agreement between Plough and Atlas[1] of January 19, 1961, was illegal per se. Alternatively, Moraine contended that, even if the contract was not unlawful per se, the evidence established that the defendants had conspired or combined to impose an unreasonable restraint on commerce.[2]

The challenged agreement involved a grant by Plough to Atlas of a license stated to be exclusive except as to Plough itself and another licensee, the Block Drug Company.[3] The directed verdict

1. The agreement was actually one between "PLOUGH" and "STUART," as those terms were defined in the agreement. Since The Stuart Company was later acquired by Atlas Chemical Industries, Inc., which in turn was later acquired by ICI, America, Inc., this opinion will hereinafter in most instances use the more convenient reference to Plough and Atlas.

2. The appellee argues that Moraine's counsel had advised the court that its entire case was premised on the alleged illegality of the Plough-Atlas 1961 license. Our examination of the trial record and statements of counsel therein satisfies us that while the primary thrust of the case presented may have been claimed per se illegality of the Plough-Atlas agreement, the alternative theory was not eliminated.

3. The relevant portions of this agreement provided:

> 1. PLOUGH grants to STUART the right to use the Feinstone Invention and a license, exclusive except as against PLOUGH and Block Drug Company (as provided in Paragraph 6 hereof), in the United States, its territories and possessions, and non-exclusive in foreign countries, to make, use and sell compositions covered by said Letters Patent No. 2,951,011, any extension or reissue thereof. . . . STUART does not have the right under

(Continued on next page)

in favor of the defendants, and the judgment entered thereon, were based on the trial court's conclusion that Moraine had failed to establish that the Plough-Atlas license agreement or the defendant's conduct incidental thereto had unreasonably restrained trade in violation of 15 U. S. C. § 1 or that the agreement or conduct constituted a tortious interference with any business relationship of Moraine. More specifically, the trial court directed a verdict on the "ground that [the] contract dated Jan. 19, 1961 between the defendants is valid and does not violate antitrust laws," and on the further ground that Moraine had cited no evidence in support of its contention that Plough had participated in causing defendant Atlas to rescind its pre-existing contract with Moraine on January 18, 1961.

I. The Major Transactional Facts

Some time during the 1950's, Dr. J. Alfred Rider, a gastroenterologist in San Francisco, California, began research work

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(Continued from preceding page)

> the license granted herein to sub-license in the United States, its territories and possessions the making, using or selling of said compositions or any of them; but STUART may grant sublicenses to third parties in countries foreign to the United States and its territories and possessions. . . .
>
> 2. PLOUGH reserves the right of PLOUGH to use the Feinstone Invention and to make, use and sell compositions covered by said Letters Patent No. 2,951,011, any extension or reissue thereof, covered foreign patents, or any improvements, but except as to Block Drug Company as provided in Paragraph 6 hereof . . . PLOUGH will not grant to any third party a license to make, use and sell said compositions or methods of using them in the United States, its territories and possessions.
>
> * * * * *
>
> 6. PLOUGH may grant a license under the patents . . . to Block Drug Company of Jersey City, New Jersey. PLOUGH will exercise its best efforts to limit license to Reed & Carnrick Division of Block Drug Company and to their product known as "Phazyme" . . . .

Other provisions in the contract make clear that the terms "PLOUGH" and "STUART," as used in the agreement, included controlled companies, present and future, of Plough, Inc. and The Stuart Company. See Note 1, *supra*.

with a composition containing methylpolysiloxane (MPS) and finely divided silica[4] for the relief of gas or flatulence in human beings. Also during the 1950's, Dr. Wolffe Harry Feinstone filed a patent application for a simethicone-containing composition for the relief of flatulence in humans.

In 1958, Moraine Products was incorporated for the purpose, among others, of promoting Rider's invention. In August 1958, Stuart approached Rider and expressed an interest in marketing deflatulent products embodying his invention. On March 11, 1960, Stuart entered into an agreement with Rider and Moraine. Under that agreement, Stuart was to pay a 5% royalty on its sales of simethicone-containing products in return for an assignment of Rider's alleged invention, including his United States and foreign patent applications thereon. The agreement was to be effective whether or not a U. S. patent was obtained.

Early in 1960, Stuart began marketing a deflatulent product called Mylicon, which contained MPS plus finely divided silica, *i.e.*, simethicone, in accordance with Rider's invention. On August 30, 1960, the Feinstone patent was issued. This patent had both method and product claims covering the treatment of gastrointestinal distress through the use of any antacid material coated with an organopoly-siloxane. While the claims of the Feinstone patent were not directed to the identical invention covered by the Rider application, Stuart became concerned about its marketing position. Feinstone and Plough, with which corporation he had become associated, advised Stuart that its Mylicon infringed Feinstone's recently issued patent.

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4. Use of the term "simethicone" to describe the combination of MPS and finely divided silica has developed in the media advertising of Di-Gel, one of the products in this case. As advertisements have noted, simethicone is the only product recognized by the Food and Drug Administration as safe and effective for relieving gas in humans. The author will use the term "simethicone" rather than the term "Antifoam A," which was the name used by Dow Chemical Company for the identical composition, which was earlier used to relieve cattle bloat.

After months of correspondence and meetings, both with Rider and Plough, Stuart rescinded its 1960 agreement with Moraine on January 18, 1961. On the next day, January 19, 1961, Stuart signed the previously mentioned patent licensing agreement with Plough. Moraine subsequently brought suit against Stuart (Atlas) for its termination of the 1960 agreement. In June 1962 that suit was settled upon terms which among other things, granted Atlas an option to obtain exclusive licenses for itself or others under any Rider patent that subsequently issued on his then-pending patent application.

After ten years of patent prosecution, the Rider patent issued on January 14, 1969. Within the thirty days provided in the settlement agreement of June 28, 1962, Atlas exercise (sic) its right to obtain an exclusive license under the Rider patent. Shortly thereafter, upon receipt of a letter of demand from Atlas, Moraine sued Plough and Block for patient (sic) infringement the suits eventually being consolidated in the Northern District of Illinois. Thereafter in mid 1970 Atlas sued Moraine in the Eastern District of Michigan seeking, among other things, a declaratory judgment that the Rider patent was invalid. Since the patent suits were filed at approximately the same time as this antitrust suit, pretrial discovery proceeded essentially on a consolidated basis. The evidence developed for purpose of the patent suits was utilized in the present antitrust action.

The patent litigation has proceeded to a final judgment. In *Atlas Chemical Industries, Inc.* v. *Moraine Products, Inc.*, 350 F. Supp. 353 (E. D. Mich. 1972), *aff'd in part, rev'd. in part,* 509 F. 2d 1 (6th Cir. 1974), Atlas secured a final adjudication that the Rider patent for the use of simethicone for the relief of gastrointestinal gas and flatulence in humans was invalid. The reported opinions of the Michigan district court and of the Sixth Circuit set forth the essential narrative details and provide a contextual background for the present litigation and need not be repeated here.

The issues in this appeal are numerous and, at least as presented, are complex. Although Atlas filed a cross-appeal, this was withdrawn two days before its answering brief was filed. Some of the issues raised in the answer brief suggest the possibility that as a tactical matter the appellee has determined to present contentions which might more properly have been raised by the cross-appeal resulting from the trial court's striking of certain defenses and counterclaims. We regard the basic issue in this appeal as being whether the district court should have granted a directed verdict; and being mindful that in considering the correctness of trial court action on review we are not necessarily confined to the reasons advanced in the trial court for the purpose of sustaining the action, we will consider the various contentions of the appellee only to the extent that they would justify the directed verdict. We find little reason for becoming involved in the eristic briefing pertaining to the scope of the decision of the litigation in the Sixth Circuit.

II. The Plough-Atlas Licensing Agreement

The first aspect of the main issue is found in a matter which appears to be of first impression and is whether it is a per se violation of Section 1 of the Sherman Act, 15 U. S. C. § 1, for the assignee of a patent in licensing a competitor to agree with that competitor that with the exception of another competitor the assignee will not license anyone else although retaining the right to use the patent itself and the first licensee will not grant any sub-licenses. The effect of the Plough-Atlas agreement which embodies the above commitments is that further licensing under the patent can only be accomplished by joint agreement between the two signatories of the licensing agreement.

Moraine contends, that under *United States* v. *Krasnov*, 143 F. Supp. 184 (E. D. Pa. 1956), *aff'd. per curiam*, 355 U. S. 5 (1957), *petition for rehearing denied*, 355 U. S. 908, the January 19, 1961 agreement between Plough and Atlas was illegal.

Undergirding the present question, in part, at least, are the competing philosophies of patent and antitrust champions. The speeches and articles of governmental antitrust officials have expressed the view that the days of benign neglect towards restrictions on competition by patentees should be numbered. See M. Adelman & F. Juenger, *Patent-Antitrust: Patent Dynamics and Field of Use Licensing*, 50 N. Y. U. L. Rev. 273, 274 (1975).

At a panel discussion on patent licensing in August 1973 Bruce B. Wilson, then Deputy Assistant Attorney General, Antitrust Division, stated quite candidly:

> . . . [T]he Department believes it to be unlawful for a patentee to agree with his licensee that he will not, without the licensee's consent, grant further licenses to any other person. That is the old *Krasnov* principle. 42 ANTITRUST L. J. 683 (1973.)

At the same meeting, George Frost, Director of the Patent Section of General Motors, while presenting his own views on matters of patent policy, noted the stringent applications of 15 U. S. C. § 1 and observed:

> Another class of cases involves restrictive license provisions for the benefit of the licensee. For example, a license veto power over the grant of future licenses has been held illegal. [citing *United States* v. *Besser Mfg. Co.*, 96 F. Supp. 304 (E. D. Mich 1951), *aff'd*, 343 U. S. 444 (1952); and *Krasnov*, *supra*.] Such restrictions on the patentee's conduct can hardly be considered a part of the right of the patentee to exclude others.

Address by George E. Frost, *Restrictions on Fields of Use and Territories*, Annual Meeting of the Antitrust Section of the American Bar Association, Aug. 7, 1973, in 42 *id.* 633, 636-37.

Although officials of the Antitrust Division have indicated the view stated above, recent filings of civil actions challenging the validity of licensing practices apparently reflect diffuse approaches, so that commentators find difficulty in uncovering

"any consistent theories that might guide patentees, licensees and their counsel in structuring licensing programs." Adelman & Juenger, *supra* at 300-01.

In sum, patent and antitrust champions have debated for a number of years the reach of such cases as *Krasnov* and *Besser*. While Moraine argues that these cases require a conclusion that the Plough-Atlas agreement was illegal, Atlas contends that such cases as *United States* v. *Singer Mfg. Co.*, 374 U. S. 174 (1963); *Virtue* v. *Creamery Package Mfg. Co.*, 227 U. S. 8 (1913); *Bement* v. *National Harrow Co.*, 186 U. S. 70 (1902); *LaSalle St. Press, Inc.* v. *McCormick & Henderson, Inc.*, 445 F. 2d 84 (7th Cir. 1971); *Bela Seating Co.* v. *Poloron Products, Inc.*, 438 F. 2d 733 (7th Cir. 1971), *cert. denied*, 403 U. S. 922; *Cataphote Corp.* v. *DeSoto Chemical Coatings, Inc.*, 450 F. 2d 769 (9th Cir. 1971), *cert. denied*, 408 U. S. 929 (1972); and *Mechanical Ice Tray Corp.* v. *General Motors Corp.*, 144 F. 2d 720 (2d Cir. 1944), *cert. denied*, 324 U. S. 844 (1945), support its position that the challenged agreement was perfectly legal.

Although Atlas so argues to this court, its officers gave testimony concerning their awareness that there was an "antitrust problem" regarding the challenged agreement. Atlas now presses its view that the January 19, 1961, agreement was an exclusive but not sole license. It correctly notes that this court has recognized, in *Flexwood Co.* v. *Faussner & Co.*, 145 F. 2d 528, 539 (7th Cir. 1944), that an exclusive license may involve more than a single licensee. It points to the above cited cases where the courts have approved licenses at least analogous to that under challenge in this case.

We think that the implicit premise of the Atlas argument is that it should not be penalized for entering an agreement in earlier years when the decisional law upheld its validity. As so construed, there is some persuasive force to the argument. An examination of the cases cited by Moraine and Atlas causes us to conclude that none of them is controlling on the question of

per se illegality. *Krasnov* involved pooling of patents, price fixing and the institution of punitive infringement suits for the purpose of harrassment rather than with the intention that they be adjudicated on the merits. In *Besser,* the conspiracy involved pooling of patents, an agreement to pool future improvement patents, interlocking directorates, the use of improper influence on suppliers or competitors to curtail their output, and recklessly made threats of suit. Each of the leading cases cited by Moraine in support of its theory of per se illegality involved a broad spectrum of anticompetitive conduct on the part of the defendants.

Resort to the writings of both patent and antitrust specialists provides a framework for judicial analysis but does not effectively resolve the basic question here presented. The precise contours of the Antitrust Division's belief as indicated above have not been traced either in test litigation or in a series of decided cases. A former chief of the Antitrust Division, the late Judge Richard McClaren, once stated his conclusions regarding *Krasnov:*

> One of my predecessors suggested—and I think rightly —that the rule of *Krasnov* should be extended to make unlawful any sole or exclusive license without sublicensing rights. 5 CCH TRADE REG. REP. ¶ 50,106, at 55,123 (1972).

Of course, the suggestion that the rule *should be extended* impliedly reflects a discerning awareness that the decision itself did not have unlimited reach. The absence of any exacting analysis of the precise nature of the views of the Division, which this court although not bound thereby would respectfully consider, is but one of the factors which makes this court hesitate in accepting Moraine's reading of the outer reaches of the Supreme Court's per curiam opinion.

Whatever may have been the view of Division officials at an earlier time, the current legal literature contains at least one hint that the present view of the Antitrust Division is not

consistent with a conclusion of per se illegality. The Department of Justice has recently announced that it will not oppose a proposed patent licensing agreement between the Salk Institute for Biological Studies and several pharmaceutical companies for the clinical testing and commercial development of somatostatin, a drug which Salk believes may be useful in treating certain forms of diabetes and other diseases. *See* "Antitrust Division Okays Salk Patent Licensing Plan," 745 ATRR at A-16 to A-17 (January 6, 1976).

The Salk Institute is a public, nonprofit foundation which performs basic biological research in its laboratories. It is supported primarily by grants from United States Government agencies and private charitable contributions. The Institute owns a patent and two pending patent applications for somatostatin and analogs thereof, but it lacks the necessary facilities and financial resources for clinical testing. It is estimated that the average cost of bringing a new drug to the market exceeds 10 million dollars.

In order to induce qualified pharmaceutical firms to conduct the necessary clinical testing of somatostatin and to obtain royalty income to fund current as well as new research, the Institute proposed to license commercial pharmaceutical firms to manufacture and sell somatostatin. One of the terms of the option agreements is a commitment by Salk to limit its initial licensing to five worldwide nonexclusive licensees, no more than two of which shall be granted to United States firms and no more than three to European firms. These limitations would apply with respect to each country until three years after the first sale in that country by a licensee to the general public of any product covered by the patent, except that Salk would be free to grant further non-exclusive licenses anywhere in the world three years after the first such sale in the United States.

In a letter dated December 16, 1976, Acting Assistant Attorney General Bruce B. Wilson explained that although

the Antitrust Division generally believes that an agreement among the licensor and its prospective licensees to limit the number of licenses is probably anticompetitive, the Institute has shown that such a limitation is the least anticompetitive way to develop somatostatin on reasonable terms. Wilson also stated that the temporary limitation on the number of licensees appeared to be reasonable because Salk had been unable to obtain license agreements with qualified and interested firms without such a limitation. *Id.* at A-17.

Even if this court assumes that Salk's use of nonexclusive licenses distinguishes the proposed licensing arrangement from that involved in the marketing of simethicone-containing deflatulents by Atlas and Block as exclusive licensees, it is difficult to reconcile the Division's approval of the Salk plan with an inflexible reading of either *Besser* or *Krasnov*, since the latter case involved the grant of a nonexclusive license to make, use and sell slip covers. 143 F. Supp. at 192.

While we may at this point conclude that the reach of *Krasnov* should not have an unlimited extension, argument for some extension retains strength. An analysis of the situation appears in R. NORDHAUS & E. JUROW, PATENT-ANTITRUST LAW, § 122 at 434-35 (2d ed. rev. 1972), which is summarized in the following three paragraphs of this opinion.

An absolute exclusive license prevents the licensor from granting any license other than the immediate one. The grant of a license accompanied by a covenant that the licensor will not grant any other licenses without the consent of the immediate licensee permits the licensor to grant other licenses under the specified conditions. Arguably, a license of the latter character has a less severe effect on competition than the absolute exclusive license. The frailty of this argument is that it overlooks the practical operation of this type of limited exclusive license.

Where the patentee or his assignee has granted an absolute exclusive license, the exclusive licensee usually has the authority to grant sublicenses. An applicant for a sub license can secure

one by obtaining the consent of the exclusive licensee. Where the patentee or his assignee has granted a nonexclusive license, under which the licensor retains the power to grant other licenses, an applicant for a license can secure one by obtaining the consent of the licensor. In either case, therefore, an applicant may obtain a license under the patent by meeting the requirements of only a single party.

The case of a limited exclusive license is strikingly different. Here, the applicant must secure the consent of the two parties, the licensor and its immediate licensee. This arrangement, which requires joint action of two parties before an applicant can secure a license, permits undesirable applicants to be boycotted through concerted action. Thus,

> [u]nder the general principle that, although a patent owner acting alone may refuse to license anyone, it can not refuse to grant a license when the refusal is pursuant to a conspiracy or combination, it would appear that a limited exclusive license of the type in question is objectionable under the antitrust laws. Nordhaus & Jurow, *supra* at § 122, at 434-35. (Footnote omitted.)

The objectionable nature of the limited exclusive license rests basically upon an analysis of the anticompetitive possibilities that such a licensing scheme presents. The authors whose analysis we have paraphrased go on to observe, citing, inter alia, *Krasnov* and *Besser*, that the issue remains unsettled.

It would appear, of course, that the issue had been settled if, as Atlas contends, and the district court apparently thought, the challenged agreement was perfectly legal. We have earlier herein cited the cases on which Atlas relies in this regard. In our opinion none of the cited cases are directly dispositive of the present issue, but because of the breadth of language in the cases we deem it necessary to discuss the principal ones.

The seminal case is *Bement* v. *National Harrow Co.*, 186 U. S. 70 (1902). In that case, the Supreme Court held that there was nothing which violated the Sherman Act in the agree-

ment between the parties that National would not license any other person than Bement to manufacture or sell any harrow of the peculiar style and construction then used or sold by Bement. At first reading, the case seems to support the argument of Atlas that the Supreme Court has ruled on the legality of its license agreement. There can be no question that the Court stated that, apart from some exceptions, "the general rule is absolute freedom in the use or sale of rights under the patent laws of the United States." *Id.* at 91.

The holding in *Bement,* however, must be read within the context of the procedural status of that case. The Court was limited in its review by the findings of fact made by the referee, who had omitted to find from the evidence that there were in fact other manufacturers of harrows who had entered into the same kind of contracts with National. Because its review was limited to the findings of fact which had actually been made, the Court concluded its opinion:

> If such similar agreements had been made, and if, when executed, they would have formed an illegal combination within the act of Congress, we cannot presume for the purpose of reversing this judgment, in the absence of any finding to that effect, that they were made and became effective as an illegal combination. As between these parties, we hold that the agreements A and B actually entered into were not a violation of the act. We are not called upon to express an opinion upon a state of facts not found. *Id.* at 95.

In view of this language, *Bement* cannot be read as expressly sanctioning the agreement or conduct of either Plough or Atlas. In the present case, there is the additional fact, supported by the evidence, that Plough licensed Block Drug Company, but did not allow Block (through its wholly owned subsidiary Reed & Carnerick) "to sublicense either in the United States or in foreign countries . . .," and that both Plough and Atlas contemplated, at the time of their agreement, that only one other limited license would be granted under the Feinstone patent.

Moreover, the Supreme Court's language expressly recognized that there were exceptions to the general rule of absolute freedom in the use or sale of patent rights. It begs the question raised in this appeal to assert that one of this court's decisions, *viz., Bela Seating Co.* v. *Poloron Products,* 438 F. 2d at 739, recognized a general rule of freedom. This court's decision did paraphrase the language of *Bement*, but it did so in the context of a claim of discrimination in royalty rates charged to undifferentiable competitors under a patent. That case was much different from the present litigation, and it did not confront the question of whether the assignee of a patent could agree with a competitor that no further licenses would be granted without its consent.

Similarly, there is nothing in *Virtue* v. *Creamery Package Mfg. Co.*, 227 U. S. 8 (1913), that relates directly to the present issue. In that case, the Supreme Court ruled that the Owatonna Company and the Creamery Package Manufacturing Company, its exclusive sales agent, did not violate the Sherman Act by bringing infringement suits against D. E. Virtue, one of the joint inventors of a churn and butter worker. A necessary element in Virtue's charge of an antitrust violation was the cooperation of the corporate defendants in bringing the infringement suits. Apart from the formal contracts, Virtue focused on the coincidence in time of the suits as proof of concerted action on the part of the defendants and of a conspiracy to destroy the business of the plaintiffs. 227 U. S. at 37. The Court found this contention untenable, and ruled that the provision in the contracts for the prosecution of infringement suits was but an assurance of the rights conveyed in valid contracts. The Court found it unnecessary to analyze or to discuss particular covenants in the "very elaborate and verbose" contract, *id.* at 26, and its statement that patent rights might be conveyed partially or entirely and that the monopoly of use, of manufacture or of sale was not condemned by law must be read in the light of the actual Court analysis.

The district court although recognizing that the holding in *United States* v. *Singer Mfg. Co.*, 374 U. S. 174 (1963), had no bearing on the issue before it nevertheless found support in a paragraph of the Court's opinion specifying what was not involved in the case before it. We find no basis of disposition of the issue before us in this negative paragraph other than the general proposition, with which we certainly do not quarrel, that the very purpose of patenting inventions is to furnish substantial exclusive rights to the holder of the patent. Nor do we find any of the other cases relied upon by Atlas determinative of the issue before us. While the cases in varying degrees contain language pointing to a conclusion that patent holders have broad freedom in licensing, we are not aware of any language specifically creating a theory of unswerving supremacy of patent law over antitrust law nor establishing in a patent licensing situation an absolute immunity from antitrust law.

Likewise the relevant statute provides no definitive answer. 35 U. S. C. § 261 provides in relevant part:

> The applicant, patentee, or his assigns or legal representatives may in like manner [by an instrument in writing] grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States.

From a historical standpoint, it appears that the quoted language was originally intended to apply to neither assignments nor licenses, but rather to what were classified as "grants" in the nineteenth century. There is a technical distinction between a grant, an assignment, and a license. A historical and literal reading of the statute points to the conclusion that the section does not really apply at all to patent licenses.[5] Or, as it has been expressed more recently, "Patent licenses are not governed by the Patent Act, Section 261 being inapplicable to licensees." P. ROSENBERG, PATENT LAW FUNDAMENTALS 264 (1975).

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5. For a succint discussion of the history of 35 U. S. C. § 261 and its precise literal meaning, see Marquis, *Limitations on Patent License Restrictions: Some Observations,* 58 Iowa L. Rev. 41, 55-57 (1972).

Even though the statutory section is not directly applicable, this court recognizes that the difference between a "grant" and an exclusive license is merely formal in nature. The litigation has been complicated by a continuing dispute over the nature of the license granted by Plough to Atlas. Moraine characterizes the challenged agreement as creating a non-exclusive license, probably because the leading cases undergirding its per se theory have involved a non-exclusive licensee agreeing not to sub-license. Atlas contends that it is indeed an exclusive licensee, subject to a reserved right in the licensor to grant a non-exclusive license to a third party. We hold that Atlas is an exclusive licensee.

However, this holding does not help in the resolution of the issue in this appeal. Nothing in 35 U. S. C. § 261 or the decided cases sanctions an arrangement wherein competitors agree with one another that they will not grant further sub-licenses. The bare language of § 261 does allow a patentee or his assignee to grant an exclusive license to make, use, or sell the patented invention. But the statutory language must be construed in connection with antitrust law.

The provision of the Sherman Act prohibiting every contract, combination or conspiracy in restraint of trade or commerce among the several states is literally all-encompassing, but courts have construed it as precluding only those contracts or combinations which "unreasonably" restrain competition. *Northern Pac. Ry. Co.* v. *United States,* 356 U. S. 1 (1958). Some business arrangements, such as price-fixing agreements, division of markets among competitors, tying arrangements, and group boycotts, have such an obvious effect on competition that they are conclusively presumed to be illegal; *i.e.,* they are per se violations of the Act. *Mogul* v. *General Motors Corp.,* 391 F. Supp. 1305 (D. C. Pa. 1975). Where activity allegedly in violation of antitrust law has not been held per se violative of Section 1 of the Sherman Act, the traditional "Rule of Reason" analysis has been held applicable.

Generally speaking, such analysis involves, inter alia, a study of the consequences of the conduct on the affected market before imposition of antitrust sanctions. See *George R. Whitten, Jr., Inc.* v. *Paddock Pool Builders, Inc.*, 508 F. 2d 547, 559 (1st Cir. 1974), *cert. denied*, 421 U. S. 1004 (1975).

The patent structure of the drug industry is peculiar in several respects, H. Miller, *Patent License Restrictions in the Prescription Drug Industry*, 53 VA. L. REV. 1283, 1292 (1967), and license restraints of many defined types are quite common in the pharmaceutical industry. Adelman & Juenger, *supra* at 299. A considerable body of literature has developed regarding field-of-use restrictions, and expert commentators have suggested that a desirable policy of enforced patent insecurity can be effectuated, and competition restimulated, by adopting a limited number of rules that would classify patent licensing practices in the drug industry, at least for antitrust purposes, in accordance with their propensity to suppress patent attack by licensees. *Id.* at 305.

The record in this appeal does not give the court the information it would need in order to undertake the kind of economic and policy analysis which should properly undergird any determination to add to the pantheon of prohibited per se practices. "The correct economic evaluation of patent-licensing arrangements under patent law or antitrust law, as with similar arrangements when patents are not involved, is a complicated process and deserves careful analysis. . . ." W. BOWMAN, PATENT AND ANTITRUST LAW: A LEGAL AND ECONOMIC APPRAISAL xi (1973). The substantial acceptance, by both the legal and economic professions, of proscriptive judicial opinions relating to licensor-licensee contracts under both patent and antitrust law cannot substitute for critical analysis in search of better answers to the relevant policy questions. *Cf. id.* at 255-56.

We cannot fault the district court for its apparent unwillingness to find a per se violation. The strict per se rules of modern antitrust law establish a conclusive presumption that a particular

kind of action has improper anticompetitive effects, and this presumption governs regardless of whether the particular conduct in its actual context has been proved to have those consequences. *Carter-Wallace, Inc.* v. *United States*, 449 F. 2d 1374, 1381 (Ct. Cl. 1971). Courts impose these presumptions where they have had sufficient prior experience with a type of action to feel justified in concluding that previously disconcerned anticompetitive effects will always, or nearly always, be present once the existence of a practice is shown or where, even without that actual experience, the court reaches the same conclusion through analysis. *Id.* In sum, per se rules are judicially created to deter agreements or practices which constitute unreasonable restraints on trade or which have such a pernicious effect on competition and so lack any redeeming virtue that a declaration of illegality can be made without elaborate inquiry into the precise harm they cause or the business excuse for their use. *E.g., United States* v. *Topco Associates, Inc.*, 405 U. S. 596, 607 (1972); *White Motor Co.* v. *United States*, 372 U. S. 253, 262 (1963); *Northern Pacific, supra* at 5.

No doubt it is possible for manufacturers to draft specific patent license terms so as to insure the cooperation of licensees in effecting anticompetitive ends. See Marquis, *supra* at 50. Where a challenge is made to a particular form of restrictive licensing, the analytic problem is to uncover a readily accessible and reliable indicator of the anticompetitive tendencies of particular license agreements. See *id.* at 93. Many types of license agreements can have an adverse effect upon competition, but it is questionable whether the traditional judicial focus on specific license restrictions rather than on the entire competitive setting surrounding the licensing of patents represents the preferable method of balancing antitrust and patent policies. See *id.* at 90.

Where licensing practices suppress incentives to attack patent validity, to invent around the patent, or to employ available technology, they can hardly be considered a legitimate exercise

of patent rights immune from antitrust scrutiny. Adelman & Juenger, *supra* at 296. Economic analysis suggests that the licensor's business interest is often not advanced by licensing all applicants. Antitrust decisions have sometimes stringently regulated patent licensing contracts which are efficient not only in the economic but also in the social sense. *Cf.* Bowman, *supra* at 241. A licensor is not always able to recoup the profits surrendered to competing licensees, Adelman & Juenger, *supra* at 298, and it is not difficult to see that the apprehension of such a possibility would exert influence upon the decisions of sophisticated businessmen.

Where a patent license is used to protect the licensee in addition to the patentee or is used to allow the licensees to divide a market among themselves, thus enabling them jointly to regiment an industry under the guise of a patent license, there is good reason to declare such a restrictive scheme illegal. Miller, *supra* at 1301. Although not left unchallenged, there is evidence in the record pointing to the conclusion that Atlas, Plough, and Block conspired to divide the market for simethicone-containing antacids among themselves. Similarly, there is an evidentiary basis for Atlas' assertions of sound commercial grounds for its desiring the challenged patent license and consistently pressing Plough for its literal enforcement.

On such a record, the erection of a judicial presumption that the challenged license agreement was pernicious or totally lacking any redeeming economic virtue is unwarranted. The continuing debate between patent and antitrust champions has not so conclusively established the anticompetitive purpose or effect of a mutual agreement not to grant sublicenses that this, or any other court, can properly eschew economic analysis and rule a priori that, upon execution, the January 19, 1961, license contract was illegal per se. Such a narrow focus on the specific terms of a licensing arrangement would ignore the body of sophisticated legal and economic literature to the effect that truncated judicial vision has frequently upset desirable com-

mercial practices. It would draw a line differentiating legal and illegal practices upon a presumption not fairly drawn from the factual realities of drug research and marketing. Thus, the district court's refusal to find per se illegality in the challenged agreement was not erroneous.

On the other hand, this court is not prepared to take the additional step and to conclude, as Atlas insists it should, that the 1961 licensing arrangement was entirely lawful. Such a conclusion would circumvent completely an application of the traditional "Rule of Reason" analysis. Accordingly, it is necessary to examine Moraine's argument that the evidence it presented established, at least on the record, sufficient facts to present a jury question as to an antitrust violation by Atlas. It is not necessary for this court itself to conduct the "Rule of Reason" analysis if it determines that the trial court erred in its entry of judgment. Upon a finding of trial court error in this regard, a remand for further proceedings would provide the mechanism for the proper reconciliation of patent and antitrust policies.

Only unreasonable restraints of trade or commerce are within the prohibition of the Sherman Act. *Standard Oil* v. *United States,* 221 U. S. 1 (1911). Since not all contracts among potential competitors are prohibited, at some time in the course of litigation in the absence of a per se violation there must be applied a "Rule of Reason" analysis, which includes consideration of the facts peculiar to the business in which the restraint is applied, the nature of the restraint and its effects, and the history of the restraint and the reasons for its adoption. See *Topco Associates, supra* at 607. It is well established that only those acts, contracts or agreements which unduly obstruct the due course of trade, or which injuriously restrain trade because of their inherent nature or effect, or because of their evident purpose are unlawful under the "Rule of Reason." *E.g., Kestenbaum* v. *Falstaff Brewing Corp.,* 514 F. 2d 690 (5th Cir. 1975), *cert. denied,* ..... U. S. ..... 44 U. S. L. W. 3493 (1976).

III. Correctness of a Directed Verdict

A. Scope and Standard of Review

The function of this court in reviewing the propriety of a directed verdict is to examine the entire record to determine whether there were any jury questions. *Stief* v. *J. A. Sexauer Mfg. Co.*, 380 F. 2d 453 (2d Cir. 1967), *cert. denied*, 389 U. S. 897. There is no dispute between the parties concerning the test applicable in this case. The rule that, upon motion for a directed verdict, the evidence must be viewed in the light most favorable to the party against whom the motion is made and that the opposing party must be given the benefit of all inferences which the evidence fairly supports, even though contrary inferences might reasonably be drawn, governs rulings upon motions for directed verdict in treble damage suits under the antitrust laws. *Continental Ore Co.* v. *Union Carbide & Carbon Corp.*, 370 U. S. 690, 696 n. 6 (1962).

While Atlas argues that the trial court correctly determined that there was no unreasonable restraint of trade under any circumstances, per se or otherwise, we do not read the decision under review as sufficiently addressing the "otherwise" aspect. In essence, it appears to us that the district court went no further than determining that the authorities hold that an owner of a patent has the right to grant an exclusive license if it so desires and, having engaged in such legal conduct, it has not violated the antitrust laws. Although the trial court recognized the unsettled state of the law and concluded, as have we, that Moraine had not established a per se violation, we do not find any basis for determining that there was any "Rule of Reason" analysis. No written opinion was provided by the trial court, and we have had to reach the conclusion that we have on the basis of bench pronouncements.

We turn then to an analysis of the evidence in discharge of our function to determine if a jury, properly instructed in the

law, could properly determine from the evidence, including the drawing of permissible inferences, that Atlas had violated the prohibitions of the Sherman Act.

We note at the outset that the focus of analysis need not be exclusively on the execution of the January 19, 1961 license agreement. Every patent license agreement is literally a contract and combination, but no formal agreement need be shown in order to establish an antitrust violation. Indeed, well counselled restraint-combiners could scarcely be expected to put or leave in their files detailed written documentation of their illegal purposes which, of course, does not mean that they might not resort to documentation of the "window-dressing" type. On a review of the instant record, we conclude there was evidence from which a jury could infer that, even prior to the formal execution of the challenged contract, there already was some form of agreement the effect of which would be to limit in numbers those catering to the needs of the substantial market of customers plagued with flatulopetic symptoms.

Many months before the execution of the license, Plough became aware of Stuart's activity in marketing its Mylicon deflatulent. Shortly thereafter, a meeting was held between the presidents of the two companies. During the course of the fall and the early winter of 1960-61, there were a number of meetings and the exchange of letters. For commercial reasons, Stuart wanted an exclusive license under the Feinstone patent. Both Plough and Stuart felt that the license should be limited to the two companies. In a letter of October 25, 1960, Stuart wrote Plough, stating:

> We hope that in view of *your and our plans* to retain such products exclusively within Plough and Stuart effective measures can be taken to stop Reed & Carnrick as well as any others. (Emphasis added.)

The factual background of this letter was that Stuart had become aware that Reed was marketing a simethicone-containing deflatulent called Phazyme. The expression of assertedly

mutual *plans* to gain exclusive rights in simethicone-containing antacids raises the possible inference that the two companies were already combining for an anti-competitive purpose, even though the formal instrument constituting the license had not yet been executed.[6]

Also on October 25, 1960, Plough wrote Stuart regarding its draft of a licensing agreement. The letter permits an inference that there was already a tentative, inchoate agreement which left room for future changes:

> However, if there is anything in it that you feel requires rewriting or modification, please do not hesitate to make such modifications so that we can eventually come up with a mutually satisfactory instrument.

Although no instrument meeting the strict demands of the common law of contracts was yet in existence, the evidence of record permits an inference that the two companies were already combining to serve not merely the interests of careful license draftsmanship but the anticompetitive end of excluding others.

Nearly a month later, the representatives of the two companies met once again. The parties there agreed that, if Plough could not force Reed & Carnrick out of the market and if court action was the only alternative, Plough would be permitted to give Reed a license. Further, it was agreed that all other companies, and products of Reed other than Phazyme would be contested in court. A proposed general agreement was reached covering the essential terms of the eventual 1961 license on November 22, 1960. A Plough letter of December 7, 1960, confirms that some understandings had been reached by late November:

> It was my impression [Dr. Feinstone] and Harry Solmson's [a Plough executive] that we had resolved the few items

6. Throughout this discussion we are merely indicating that which a jury might have determined to be facts demonstrating illegal combination and do not intend in any way to indicate that such is what would have been found if the case had gone to the jury.

> that required modification during the course of your visit as was *finally discussed and agreed upon* in Harry's office. Consequently, we have revised that draft to conform with our mutual understanding as of that time. (Emphasis added.)

As antitrust specialists have observed, courts often focus on a specific license restriction rather than on the entire competitive setting surrounding the licensing of patents. See Marquis, *supra* at 90 n.120. It is difficult to avoid concluding that the trial court failed to follow the salutary advice that

> [a] key point to keep in mind in investigating competition is that the patent license is often only one of many agreements between the licensor and licensee, ranging from sales contracts to other patent licenses. In spite of the importance of patent licenses, therefore, a more accurate appraisal of competition is obtained by considering all other agreements and dealings between the firms in conjunction with the patent license. Although the patent license may frequently make the greatest contribution, these other agreements are important not only for the specific restrictions they impose, but for their cumulative effect upon the behavior of competitors. *Id.* at 90.

On the present record, this court cannot confidently assert that a jury could not reasonably infer that there were oral agreements between Plough and Atlas prior to the formal execution of the patent license. Nor can this court proscribe, as a matter of law, the drawing of jural inferences that the mutual understandings aimed at anticompetitive ends.

Plough and Atlas acted diligently in preventing the entry of other competitors (except Reed & Carnrick) into the market for human deflatulent products. From the execution of the license agreement until the approximate date on which the present litigation was commenced, well over forty drug companies applied for licenses under the Feinstone patent. All were refused. Other than the original two licenses to Atlas and Block, no licenses were granted to any other company. A jury could reasonably infer that Atlas combined with Plough in forcing other simethicone-containing products off the market.

At all pertinent times, the only simethicone-containing products which remained on the market and were available to the public throughout the United States were those of Plough, Atlas, and Block, the alleged co-conspirators. Expert testimony based upon economic data was used by Moraine to show that the license restriction had a significant effect upon the relevant market. We are persuaded that a jury could infer that there was an actual restraint of trade.

The important question, of course, was whether any restraint of trade was unreasonable or whether, if a restraint existed, it was sanctioned by the federal law applicable to patents. This court holds that the combination of the license agreement impliedly calling for the joint consent of Atlas and Plough before additional licenses would be granted, when taken in conjunction with the repeated refusals of either Atlas or Plough to grant any such sublicenses, represents conduct for which the patent statute provides no direct sanction. In the absence of any direct case law directly proscribing either the license terms or the conduct of Atlas and Plough, the ultimate question of the reasonableness of any trade restraints disclosed by the evidence was for the jury to determine.

Under *Fortner Enterprises, Inc.* v. *United States Steel Corp.*, 394 U. S. 495, 500 (1969), a plaintiff who cannot meet the standards necessary to bring into play the doctrine of per se illegality can "still prevail on the merits whenever he can prove, on the basis of a more thorough examination of the purposes and effects of the practices involved, that the general standards of the Sherman Act have been violated." In that case, the district court had granted summary judgment in favor of the defendants in a private antitrust action. Here, the district court directed a verdict for the defendants, and entered judgment thereon. In so doing, the trial court acted upon a mistaken reading of the case law and upon an unformulated analysis of the evidence. Since Moraine never abandoned its "Rule of Reason" basis for recovery, the action of the trial court was in error. Unless

there are alternate grounds upon which the judgment in favor of Atlas can stand, this court must reverse the judgment as to the antitrust counts and remand for a new trial. We will in the next section of this opinion address ourselves to alternative grounds advanced by Atlas for affirmance.

A different situation exists with regard to Count II of Moraine's complaint. The Plough-Atlas negotiations of late 1960 took place within the context of Rider's application for a patent. During the negotiations, Stuart advised Plough that it was considering a rescission of the Moraine-Stuart agreement of March 11, 1960. On the basis of our review of the record, we conclude that the district court properly ruled that Moraine had not produced sufficient evidence that Plough participated in the decision to rescind the Moraine-Stuart agreement. Inasmuch as Moraine and Atlas settled their controversy regarding this matter in the June 28, 1962, option agreement, the trial court's grant of a directed verdict on Count II was correct.

IV. Alternative Grounds for Affirmance

On appeal, a litigant is entitled to rely on any ground for affirmance, whether or not passed upon by the trial court. *Dandridge* v. *Williams*, 397 U. S. 471, 475 (1970). Atlas argues that there are many additional sound grounds upon which the district court could have either dismissed the complaint or granted a directed verdict against Moraine. We shall not discuss all eight of the grounds upon which Atlas relies. However, we think that at least three of the asserted grounds merit discussion.

A. Policy Aspect of the Antitrust Claims

A troublesome aspect of the continuance of this litigation arises out of the fact that the essence of Moraine's damage claim is a deprivation of royalties from the Rider patent during the several year period from the time of its granting until

its judicially declared invalidity. Although there is some basis to an argument that the underlying policy of *Lear, Inc.* v. *Adkins*, 395 U. S. 653 (1969), points to a conclusion that Moraine, the holder of a patent subsequently determined to be invalid, should not be able to recover damages predicated in effect upon licensing royalties, we are not persuaded that such policy considerations override Moraine's rights under the antitrust laws. While there are paradoxical aspects of allowing recovery to arise from illegal interference with the sale of something which ultimately was proven to have no sales value, it cannot be said that there was no such value during the period of the presumptive validity of the patent. We are assuming, of course, the nonexistence of facts indicating knowledge on the part of the patent holder of patent invalidity or bad faith otherwise. While Moraine was the holder of a presumptively valid patent, it could legally entertain the expectation, unless it had in some manner deprived itself thereof, of receiving royalties from licensing arrangements which in final analysis are agreements in which the licensee is purchasing the right to be free from infringement litigation, which Moraine did have to sell during the period of validity.

B. Moraine-Atlas Settlement of June 28, 1962

Moraine's suit against Atlas for damages arising from the January 18, 1961 rescission of the 1960 agreement was settled, and Atlas was granted an option to take an exclusive license under the Rider patent. When the Rider patent issued in 1969, Atlas exercised its right to take such a license. At that time, Atlas was already manufacturing and selling in the United States products covered by the Rider patent.

The gravamen of Moraine's complaint of injury is that, because potential licensees under the Rider patent also required a license under the Feinstone patent in order to practice the Rider invention, the combination unlawfully limiting licenses under the Feinstone patent necessarily limited the number of

potential licensees under the Rider patent and deprived Moraine of royalty income. Atlas seeks to sustain the judgment in its favor by contending that the illegal agreement or conspiracy, if any, could not possibly have damaged Moraine. It rests this argument on a claim that, except for several narrow exceptions, the terms of its license from Moraine precluded Atlas from nominating additional licensees.

One thrust of the Atlas argument is that the 1962 agreement gave it the right to license itself or others and that once it had taken the license for itself it no longer had any legal right to license others. This approach puts great significance on the use of the disjunctive "or," a semantical significance that we are not persuaded the parties ever intended. While ordinarily the construction of documents is a legal question, the language of the 1962 agreement sufficiently lacks clarity as to the claimed restrictive limitations as to justify the admission of testimony as to the actual intent of the parties. Here there was testimony from which the jury could infer that Atlas did have sub-licensing rights.

In respect to the agreement, Atlas also contends that in any event it was limited to claimed infringers in nominating others for a license. We decline to accept this strained construction of the agreement.

C. Moraine's Standing to Sue

Atlas also argues that Moraine's claims for loss of royalties in Counts I and III of its amended complaint were inappropriately brought under the antitrust laws because Moraine lacks standing to sue. This same argument was made on several pretrial motions to dismiss, but the district court denied the motions upon the authority of *Congress Building Corp.* v. *Loew's, Inc.*, 246 F. 2d 587 (7th Cir. 1957).

We are not persuaded that *Congress Building* is precisely analogous to this case. In that decision, a theatre lessor was allowed to bring antitrust charges against conspirators whose action allegedly reduced the plaintiff's revenues from a percent-

age lease of the theatre. Atlas rightly observes of the facts of *Congress Building* that the plaintiff there had a reasonable business expectancy to protect, *i.e.*, rental payments for its theatre lease. Here, it is contended that Moraine had not reserved any reasonable business expectancy for such royalties.

The resolution of the standing question necessarily interacts with the question of the precise legal effect of the 1962 agreement. If Moraine's agreement with Stuart contemplated additional licensees other than Atlas, the lack of nomination of licensees by Atlas, taken in conjunction with its Plough agreement, could be the basis for the determination of injury to the plaintiff who would thereby have standing to sue. What we have said under the previous subsection of this opinion is applicable to the matter of the 1962 agreement relationship to the present question. Upon remand, the ramifications of the effect of the 1962 agreement upon the present and allied questions may have to be the subject of further factual exploration. Although we think *Congress Building* is factually distinguishable, we decline to hold on the record before us that Moraine had no standing.

D. Other Alternative Affirmance Arguments

We have examined the other grounds which Atlas claims were sufficient to justify either a dismissal of the complaint or a directed verdict in its favor. We are not persuaded that Rider's supposed fraud in the procurement of his patent represents a sufficient ground for affirmance. We think there was evidence from which the jury could infer that Rider perpetuated no fraud. In the related patent litigation to which this opinion has earlier referred, the courts suggested that Moraine and its principals satisfied "the highest degree of candor and good faith" required of those having dealings with the Patent Office. *Atlas Chemical Industries*, 509 F. 2d at 8, quoting *Kingsland* v. *Dorsey*, 338 U. S. 318, 319 (1949). The parties disagree over the findings actually made by the Michigan

court on this question, but the error of the trial court in taking this case from the jury makes it unnecessary for this court to set forth at this time the principles of collateral estoppel applicable to this asserted ground for affirmance.

V. Summary

The record does not give this court sufficient information with which to undertake the critical legal and economic analysis which should precede the establishment of a new per se antitrust violation. We find no error in the district court's unwillingness to accept Moraine's theory that the Plough-Atlas license agreement of January 19, 1961, was a per se violation of the Sherman Act. However, the record establishes that the trial court never attempted the flexible "Rule of Reason" analysis. Nothing in 35 U. S. C. § 261 or in the decided cases expressly sanctions an arrangement wherein two competitors join together and agree that no further competitors may be licensed under a patent without the joint consent of the first two. The district court erred in directing a verdict on the antitrust counts in favor of Atlas, and in entering judgment thereon, because of its conclusion that the challenged license agreement was valid.

The district court correctly ruled that Moraine had not produced sufficient evidence to prove that Plough participated in the decision by Stuart to terminate its 1960 agreement with Moraine, and its directed verdict in favor of Atlas on the tortious interference with business relationships count (Count II) was not erroneous. The alternative grounds argued by Atlas to support the judgment below depend on the literal language of the June 28, 1962 option agreement, on policy arguments drawn from *Lear, Inc.* v. *Atkins, supra,* and on charges of fraud by Moraine and Rider. These asserted grounds commingle questions of fact, law, and policy. On this record, and viewed in the light of the applicable standard for the direction of a verdict, this court cannot ground an affirmance upon them.

The judgment of the district court is affirmed as to Count II of the amended complaint. As to Counts I and III, the judgment of the district court is reversed, and the cause is remanded for further proceedings not inconsistent with this opinion.

AFFIRMED IN PART,
REVERSED IN PART AND REMANDED.

IN THE UNITED STATES DISTRICT COURT
Northern District of Illinois
Eastern Division

MORAINE PRODUCTS,
Plaintiff,

vs.

ICI AMERICA, INC., et al.,
Defendants,

vs.

J. ALFRED RIDER, M.D., et al.,
Third-Party Defendants.

70 C 2350

Before the HONORABLE THOMAS R. MCMILLEN and a jury on Friday, March 28, 1975, at the hour of 10:35 o'clock a.m.

The trial resumed pursuant to adjournment.

* * * * *

The Court: I think I read all the memoranda that were submitted on the motion for a directed verdict, yes, and read all the cases that were cited by the parties with minor exceptions. I read all of the leading cases. I have not read your motion for summary judgment on Count V, if that is what you are inquiring about.

I do not know of any memorandum submitted in connection with the motion for summary judgment that I did not have an opportunity to study and, likewise, cases. I did not cite cases specifically in my decision but I did indicate that I was relying primarily upon Seventh Circuit cases and on Supreme Court cases. Although, even the cases that were cited by the plaintiff outside of the Northern District of Illinois did not seem to

me to be applicable or persuasive on the particular facts that we had here.

I might say that I was somewhat impressed by the exceptions that the Supreme Court carved out in the Singer Manufacturing case at page 189 where they said they wanted to make it clear they were not deciding certain things. They had a paragraph in there which seemed to me came closer to the issues that we have in this case than what the Supreme Court actually decided in Singer. So, I did not feel that Singer was an authority that would be contrary to my ruling. In fact, I felt that it was somewhat consistent with some of the District Court cases that the plaintiffs cited but not applicable to our situation.

I followed the Virtue case in which I think the type of license here was approved by the Supreme Court. I felt that the Cataphote case in the Ninth Circuit was quite appropriate or persuasive in our situation. The Seventh Circuit case that I had in mind was the Bela Seating case, which was cited in two different ways, but the one, I think, which is accurate is 438 Fed. 2d, 733 in which the Court of Appeals in this circuit advocated the widest or broadest possible use of patents and to me indicates if there is a conflict between patent law and antitrust law, that the patent law will prevail unless the antitrust laws specifically or by necessary implication amend the patent laws.

I thought the Mechanical Ice Tray case in the Second Circuit was quite persuasive. That is one that I relied upon. Of course, there is some language in the LaSalle Street Press case in the Seventh Circuit that is persuasive.

I am not going to write an opinion in the case. I am going to rely on my analysis of the evidence and on the plaintiff's failure to come forward with any evidence supporting the one narrow area of the case where I felt there might be a jury question.

* * * * *

Court, U. S.
FILED
OCT 14 1976
MICHAEL RODAK, JR., CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1976

No. 76-391

MORAINE PRODUCTS, *Cross-Petitioner,*

v.

ICI AMERICA INC., *Cross-Respondent.*

Cross-Petition for a Writ of Certiorari to the United States Court of Appeals for the Seventh Circuit

BRIEF FOR CROSS-RESPONDENT IN OPPOSITION

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BRIEF FOR CROSS-RESPONDENT IN OPPOSITION

QUESTION PRESENTED

Whether a patent license agreement granting a license which is exclusive except as to the licensor and another licensee, under which the exclusive licensee is not authorized to license third parties, has such "a pernicious effect on competition" and is so "lacking in any redeeming virtue" that it, standing by itself, may be conclusively presumed to be *per se* unreasonable under Section 1 of the Sherman Act.

STATEMENT OF THE CASE

Much of the material in cross-petitioner Moraine's Statement of the Case is completely irrelevant to its *per se* Sherman Act violation theory.[1] This irrelevant material is couched in conclusory language reflecting counsel's version of evidence that must, under the Circuit Court's ruling, be presented to the jury,[2] and evaluated by it in conjunction with other evidence the parties desire to adduce. ICI America has therefore undertaken not only to restate the Question Presented but also to supply its own Statement of the Case.

On January 19, 1961, Plough entered into a patent license agreement with Atlas, granting to Atlas the right to use the Feinstone Patent. This license was exclusive, except as to Plough itself and as to Block Drug Company, to which Plough subsequently granted a license on August 25, 1961. Under the agreement

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[1] A good example of such irrelevant material is Moraine's assertion, in a footnote on page 5 of its cross-petition, that the District Court in the Detroit action in which the Rider Patent was held invalid found that Atlas had engaged in misconduct with respect to the Rider Patent. The 6th Circuit reversed the District Court on the issue of Atlas' alleged misconduct, *Atlas Chemical Industries, Inc.* v. *Moraine Products*, 509 F.2d 1, 7 (6 Cir. 1974)—a fact that the cross-petition has seen fit to ignore. See ICI America App. 46a-47a. (References to "ICI America App." are to the appendix in ICI America's Petition for Certiorari in No. 76-390). When Moraine tried to reassert this charge upon return of the case to the District Court in Detroit, the case was dismissed.

[2] See the discussion of two other factors deemed by Moraine to be material to this Court's consideration but which ICI America regards as extraneous to the *per se* question raised by Moraine, Point II, *infra*, pp 8 to 11.

Atlas did not have the right to sublicense the Feinstone Patent in the United States. See App. A2-A3, fn. 3.[3]

Moraine's cross-petition (pp. 2-3) erroneously describes the Plough-Atlas license agreement as follows: "Their license agreement provided that no other licenses would be granted without their joint consent." The license agreement contained no such "joint consent" provision concerning further licensees. Indeed, by limiting licensees to only Block and Atlas, the agreement itself expressly negated all future licensees.[4]

Moraine's cross-petition also incorrectly states (p. 5) that any drug company "wishing to market a product employing simethicone for treating gas in humans required a license under both patents", i.e., the Feinstone Patent and Moraine's Rider Patent No. 3,442,189 on which Moraine bases this lawsuit. It is not correct to say that such company "required" a license under Moraine's Rider Patent. The Rider Patent was narrow in scope, having only process claims and no product claims. Hence, any person making or selling a simethicone-containing product for treating gas in humans that employed a process other than that claimed by the Rider Patent was free to do so without securing a license under the Rider Patent. Moreover, even where possibly infringing processes may be involved, it is

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[3] References to "App." are to the Appendix of Moraine's cross-petition herein.

[4] As will be set forth in Point III, pp. 11 to 12, *infra*, the possibility of granting further licenses could stem only from the parties' consent, in subsequent bargaining, to the termination of the exclusive license. The possibility of such termination is, of course, present in all license agreements, but it is not a provision of the Plough-Atlas agreement.

doubtful that a simethicone product manufacturer or seller would have sought a license under the Rider Patent, which was attacked in court as invalid within the first year of its life, and was adjudicated to be invalid about three and a half years after its issuance in the declaratory judgment action brought by Atlas in Detroit (see ICI America's petition for certiorari (No. 76-390), pp. 3-4, and p. 4, fn. 2).[5]

Moraine urged in the District Court that the Plough-Atlas agreement constituted a *per se* violation of § 1 of the Sherman Act (15 U.S.C. § 1) and, in the alternative, that under the "rule of reason" approach the contract between, and the conduct of, Atlas and Plough constituted an unreasonable restraint of trade.

At the close of Moraine's case, the District Court directed a verdict against Moraine on both theories of recovery, see ICI America App. 1a to 3a. Moraine's suit against Plough was settled shortly after the directed verdict. Upon a stipulation entered into between Moraine and Plough, the District Court entered an order dismissing the complaint as to Plough with prejudice. Thereafter Atlas was the only defendant remaining in the case.

On appeal, Moraine again argued the *per se* illegality of the Plough-Atlas license agreement and that, even if there was no *per se* violation, there was sufficient evidence to take the case to the jury under the "rule of reason" theory. The Seventh Circuit affirmed

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[5] ICI America's petition for certiorari, filed herein on September 15, 1976, sets forth its position that Moraine's present action, since it is founded on an attempt to obtain royalties on the Rider Patent, should be dismissed because of the judicial invalidation of that patent in the Detroit action, regardless of the issue raised by Moraine in its cross-petition.

the District Court's conclusion that the Plough-Atlas agreement was not a *per se* antitrust violation. But it reversed in part and ordered a new trial, on the basis that there was evidence in the record which warranted submitting to the jury the issue whether ICI America had unreasonably restrained commerce under the "rule of reason". See App. A25-A26.[5a]

ARGUMENT

I. The Decision Below on the Per Se Violation Issue Is Correct

This Court, in *Northern Pacific Railway Co.* v. *United States,* 356 U.S. 1, 5 (1958), laid down the rule, confirmed in *United States* v. *Topco Associates,* 405 U.S. 596, 607 (1972), that only those agreements or practices can be considered to be *per se* unreasonable under the Sherman Act—

> "which because of their pernicious effect on competition and lack of any redeeming virtue are conclusively presumed to be unreasonable and therefore illegal without elaborate inquiry as to the precise harm they have caused or the business excuse for their use."

The only issue presented by this cross-petition is whether the Plough-Atlas agreement of January 19, 1961, is a *per se* antitrust violation, a view that was rejected by the two Courts below (App. A2, A3, A6). Under this agreement, Plough gave up the lawful monopoly to which its ownership of the Feinstone Patent entitled it and granted licenses to two competitors, Atlas and Block. Any licensing arrangement which thus expands the number of competitors on the

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[5a] The Seventh Circuit's opinion is reported in 538 F.2d 134 (1976).

market can hardly be characterized as having a pernicious effect on competition.

Even the two cases most heavily relied on by Moraine acknowledge that an exclusive (or semi-exclusive) license [6] such as is involved here may be valid and may confer the right to exclude others from the field covered by the patent, see *United States* v. *Besser Mfg. Co.*, 96 F. Supp. 304, 311 (E.D. Mich. 1951); *United States* v. *Krasnov*, 143 F. Supp. 184, 200 (E.D. Pa. 1956). Since there is no provision for compulsory licensing in the Patent Code, a patentee may in the usual case validly decline any requests for a license that are made to him.

There are plausible legal and economic justifications for a patentee limiting the number of licenses it grants in any particular licensing program. As the Court below noted (App. A19):—

> "Economic analysis suggests that the licensor's business interest is often not advanced by licensing all applicants. * * * A licensor is not always able to recoup the profits surrendered to competing licensees, Adelman & Juenger, *supra* at 298, and it is not difficult to see that the apprehension of such a possibility would exert influence upon the decisions of sophisticated businessmen."

As long as there are licensors who limit the number of their licenses on such a rational basis, semi-exclusive

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[6] The court below correctly observed that an exclusive license may involve more than a single licensee. App. A8. See, *in accord*, *McCullough Tool Co.* v. *Well Surveys, Inc.* 343 F.2d 381, 404-405 (10 Cir. 1965), one of the cases relied on by Moraine in its cross-petition. However, to eliminate a semantic confusion that occurs in some of the cases, we shall refer to the Plough-Atlas agreement and similar license agreements limiting the number of licensees to two or three as "semi-exclusive" licenses.

licenses of the Plough-Atlas type cannot be said to have a "pernicious effect on competition" and to be *per se* illegal.

A noteworthy example of a semi-exclusive license, set forth at length in the opinion of the Court below, is the Salk Patent Licensing Plan. Under this plan the Salk Institute, the patentee, committed itself to limit its initial licensing to no more than two U. S. firms (App. A9-A11). The plan received a "business review" clearance from the Justice Department. We do not argue, as Moraine's cross-petition wrongly anticipates (see p. 11, footnote *), that the Justice Department's intention not to oppose the Salk Licensing Plan makes it lawful or provides any antitrust immunity for the activities involved. But, as the Court below noted, it does establish that there are circumstances in which semi-exclusive licenses may be "the least anti-competitive way" to develop a drug on reasonable terms, and may be "reasonable because [the patentee] had been unable to obtain license agreements with qualified and interested firms without such a limitation" (App. A11). This demonstration was strong enough to override, and is more significant than, the Justice Department's prior abstract pronouncements about the illegality of semi-exclusive licenses.

It does not matter that Salk is a differently circumstanced licensor than Plough or that the limitation to two U.S. licensees is in effect for a three year period, during which lead time, incidentally, the two licensees can become firmly entrenched on the U. S. market. A *per se* antitrust rule is general in nature and industry-wide in scope. Differences among licensors and in the duration of the restraint are immaterial and inconsequential to a *per se* rule.

As shall be pointed out next, the record below made by the parties is barren of any reference as to the general impact of semi-exclusive licenses on competition. But the clearance given the Salk Plan is strong indication that semi-exclusive licenses of the Plough-Atlas type in fact have a "redeeming virtue", do not necessarily have a "pernicious effect on competition" and hence are not *per se* unreasonable under the Sherman Act, see *Northern Pacific Railway Co.* v. *United States,* quoted *supra* at p. 5.

The foregoing, taken in conjunction with the fact that the decision of the Court below does not conflict with applicable decisions either of this Court or of the lower federal courts (see Point III, pp. 11 to 14, *infra*), establishes that the decision of the Court below on the *per se* issue is correct.

II. The State of the Record Below Does Not Justify Review by This Court

To compensate for the absence of any factual base in the record for an inference of *per se* antitrust violation, Moraine stresses, in its Questions Presented and Statement of the Case, a basic assumption that has not only been controverted by the parties, but is not material to the consideration of its *per se* violation question, contrary to the Rules of the Supreme Court of the United States, Rule 23(e), Moraine's cross-petition (see pp. 2, 5) assumes that the relevant commercial market in this case is that of products employing simethicone for treating flatulence in humans, and thus concludes, all too easily, that Plough and Atlas have monopolized that market. Its asserted basis for this assumption is that simethicone is the only product that has been found by the Food and Drug Administration to be effective as an antiflatulent.

However, the FDA report on which Moraine relies (Antiflatulent Products for Over-the-Counter Human Use, 21 C.F.R. 332) does not, in ICI America's view, support Moraine's contention that simethicone-containing antiflatulents are a relevent market susceptible of being monopolized or illegally restrained.[7] Rather it indicates that the relevant market is the much broader one of products that can serve as an " 'antiflatulent' and/or 'to alleviate or relieve the symptoms of gas in humans' " (*id.*, 332.30(a)). The FDA, in a subsequent announcement initiating a new program to study this area, indicated that there are, in addition to simethicone, 48 drug ingredients (including those contained in Warner-Lambert's well-known Rolaids and Gelusil)[8] which may fall within this broadly defined field, see 40 Fed. Reg. 38179, dated August 27, 1975.

Moreover, the FDA report on Antiflatulent Products has no bearing at all on the competitive situation at the times involved in Moraine's complaint, which was filed on September 23, 1970. The FDA findings were not made final until June 4, 1974 (39 Fed. Reg. 19877), almost four years later. At no time has there been any restriction on the freedom of the many companies in the broad drug market referred to in the preceding paragraph to include, in their labelling and promotional literature, statements concerning the

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[7] The District Court recognized that this complex issue as to the scope of the relevant market remains to be tried and resolved by the jury, see ICI America App. 2a.

[8] That these drugs compete with Plough's and Atlas' antiflatulents was testified to at the trial by a Warner-Lambert witness and by Moraine's own economist, see Transcript of Hearing before Judge Thomas R. McMillen, March 24 and 27, 1975, pp. 741, 1215, 1227 and Plaintiff's Exhibits 335(a) and 335(b).

efficacy of their drugs as alleviators and relievers of gas in humans, including the treatment of such symptoms as distension, fullness, bloating or pressure associated with gas. In fact, such statements were made by Atlas' competitors, see Transcript of Hearing before Judge Thomas R. McMillen, March 24, 1975, pp. 725-729.

Another matter stressed in Moraine's cross-petition is its erroneous statement (p. 4) that over forty drug companies "requested licenses under the Feinstone Patent from the defendants". It cannot properly be said that these companies "requested licenses", since most of these communications were mere inquiries. More significantly, as the Circuit Court recognized, these inquiries are material, not to Moraine's *per se* violation question, but to the possibility of a jury inference "that Atlas combined with Plough in forcing other simethicone-containing products off the market" (App. A24).

If Moraine's case depends on this Court's acceptance either of Moraine's definition of the relevant market or of its appraisal of Plough's and Atlas' conduct with respect to inquiries about the Feinstone Patent, then it clearly has no *per se* case, because any ruling based on either of these two limiting factors could not conceivably have industry-wide application.

Moreover, this Court should not review this case because the record below (a) contains no evidence concerning the general effect of semi-exclusive patent licenses on competition, and (b) even with respect to two points deemed material by Moraine, is currently quite incomplete and remains to be developed and presented

to the jury. As the Court below properly observed (see App. A17):—

> "The record in this appeal does not give the court the information it would need in order to undertake the kind of economic and policy analysis which should properly undergird any determination to add to the pantheon of prohibited per se practices."

III. There Is No Conflict of Decision

Moraine's basic argument is that the decision of the Court below that exclusive or semi-exclusive licenses are not *per se* illegal conflicts with those reached by the lower federal courts in the six cases cited on page 8 of its cross-petition. The Court below, after an examination of those cases, disposed of this argument by concluding that

> "none of them is controlling on the question of per se illegality. *Krasnov* involved pooling of patents, price fixing and the institution of punitive infringement suits for the purpose of harrassment rather than with the intention that they be adjudicated on the merits. In *Besser,* the conspiracy involved pooling of patents, an agreement to pool future improvement patents, interlocking directorates, the use of improper influence on suppliers or competitors to curtail their output, and recklessly made threats of suit. Each of the leading cases cited by Moraine in support of its theory of per se illegality involved a broad spectrum of anti-competitive conduct on the part of the defendants" (App. A8-A9).

On pages 9 and 10 of its cross-petition, Moraine, on the basis of quotations from *Besser, Krasnov* and two other decisions taken out of context, argues that the Plough-Atlas agreement is *per se* illegal, because it requires the "joint consent" of the patentee and its li-

censee before other licenses can be granted and that this gives the licensee a "veto power" in the selection of other licensees and is therefore *per se* illegal.

To this it may be said that it is true of an exclusive patent license agreement (as it is true of any contract) that the parties to the agreement must give their "joint consent" before the contract can be amended or modified, and that the licensee may in that sense be said to have a "veto power" over activities of the licensor that are in conflict with the terms of the contract. But this clearly is not the type of "joint consent" or "veto power" with which the courts in the *Besser-Krasnov* line of cases were concerned. Rather, as already pointed out (see page 6, *supra*), *Besser* and *Krasnov* recognized that exclusive licenses [9] may be valid and that such licenses may confer the right to exclude others from the field. Obviously, in the case of a semi-exclusive license such as the Plough-Atlas agreement, before any new license can be granted, the license has to be modified by the "joint consent" of the parties, in which sense both the licensor and the licensee may be said to have "veto power". However, it is difficult to see how the operation of this elementary principle of contract law can convert a valid into an invalid agreement.

The licenses condemned in the *Besser-Krasnov* line of cases were not simple exclusive or semi-exclusive licenses, but involved situations where it was clear from evidence outside the license that "the parties intended [the] contract to be a means whereby control of the

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[9] It was pointed out earlier (see page 6, footnote 6, above) that the term "exclusive license" includes "semi-exclusive" licenses of the Plough-Atlas type. In any event, Moraine's fallacious "joint consent" theory applies regardless of whether the patent license is limited to one or two licensees.

industry could be acquired and competition eliminated", see *United States* v. *Besser Mfg. Co.*, 96 F. Supp. 304, 311 (E.D. Mich. 1951); see in accord, *United States* v. *Krasnov*, 143 F. Supp. 184, 199 (E.D. Pa. 1956). Also, they concerned situations where two or more

> "individual patentees combine their valid patent monopolies and contract between themselves and with their licensees to secure mutual benefits for themselves and their licensees that are not given to them by the patent laws, and which agreement gives to the opposite patentee and the licensees a right of control over patent rights that may be asserted, and is used in restraint of interstate trade and commerce", *Mason City Tent & Awning Co.* v. *Clapper*, 144 F. Supp. 754, 768 (W.D. Mo. 1956); *Clapper* v. *Original Tractor Cab Co.*, 165 F. Supp. 565, 577 (S.D. Ind. 1958). Cf., in accord, *McCullough Tool Co.* v. *Well Surveys, Inc.*, 343 F. 2d 381, 405-407 (10 Cir. 1965).

The parties to these agreements "were jointly given an exclusive market and control thereover by the terms of said Agreement, and not singularly as a consequence of patent privileges acquired". See *Clapper* v. *Original Tractor Cab Co., supra*, at 576.[10]

Plough, the assignee of the Feinstone Patent, in granting a semi-exclusive license under a single patent to two licensees, was clearly asserting in its 1961 license agreement with Atlas a right which it has under the patent laws to limit its licensing activity (see pages 6

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[10] ICI America fails to see the pertinence of *United States* v. *Associated Patents, Inc.*, 134 F. Supp. 74 (E.D. Mich. 1955), a case involving a "specialized cartel", where five competing manufacturers of machine tools formed a patent-holding company for the purpose of allocating exclusive fields of manufacture to each other.

to 8, *supra*). Plough has not embarked on any patent pooling program with competitors. Atlas' and Block's rights under the 1961 agreement flowed directly from Plough's "privilege" as the assignee of the Feinstone Patent. Moreover, the Plough-Atlas agreement does not confer, upon a non-exclusive licensee or other person not possessing a relevant privilege under the patent laws, any right to restrict or control its patent licensing or enforcement activity, with a view to controlling an industry or fixing prices or curtailing output or doing anything else contrary to the Sherman Act.

Accordingly, if Moraine has any claim that Plough and Atlas violated the antitrust laws, it is not by virtue of the Plough-Atlas agreement, but can only be, as the Court below pointed out, with respect to "conduct incidental" to that agreement (App. A3). This being the case, the Plough-Atlas agreement cannot be considered *per se* violative of the Sherman Act.[11]

The foregoing makes it clear that the Plough-Atlas agreement, taken by itself, represents a decision by Plough to limit the exploitation of its single lawful patent monopoly to three persons, Atlas, Block and itself. Since the agreement itself shows no purpose to eliminate or suppress industry competition through the misuse of patent rights, the six Supreme Court decisions cited on pages 7 and 8 of the Moraine cross petition, reflecting antitrust truisms that no one would dispute, are inapplicable to this case. There is therefore no conflict among the decisions.

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[11] Moraine practically admitted as much when it included, in its Statement of the Case, an extended reference to over 40 alleged "refusals" to license under the Plough-Atlas agreement, see page 10, *supra*.

IV. Moraine's Second Question Is Insubstantial and Inconsequential

Moraine has raised as the second Question Presented in its cross-petition the following:

> "Can commercial misconduct which is a per se antitrust violation in one line of commerce not be a per se violation simply because it occurs in another line of commerce?"

This question is self-contradictory and lacking in substance, because a rule of *per se* antitrust violation is necessarily industry-wide in scope. The appropriate response to Moraine's pointless question is that commercial misconduct which is *not* a *per se* antitrust violation in any line of commerce (e.g., drugs) cannot be a *per se* violation at all.

Moraine's second Question seems to be based on its misreading (see p. 12 of its cross-petition) of the Seventh Circuit's purpose in referring to the literature on the patent licensing problems of the drug industry. The Court turned to this literature not to create any special status for the drug industry, but because it recognized the need for information as to the competitive impact of the challenged restriction on the affected drug market and felt that there was nothing in the record before it that would give it the needed information (App. A16-A17), see page 11, *supra*. This vacuum in the record is why the clearance given the Salk Patent Licensing Plan figures so importantly in the Court's opinion (see pp. 7 to 8, *supra*), and why the Court canvassed the relevant literature on patent licenses in the drug industry before concluding that the Plough-Atlas agreement was not a *per se* antitrust violation.

CONCLUSION

For the foregoing reasons, it is respectfully submitted that this Cross-Petition for a Writ of Certiorari should be denied.

Respectfully submitted,

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